***Organizational Theory, Design, and Change, 7e* (Jones)**
Chapter 2   Stakeholders, Managers, and Ethics

1) In general, stakeholders are motivated to participate in an organization if they receive inducements that exceed the value of the contributions they are required to make.
Answer: TRUE
Page Ref: 28
Difficulty: Easy
LO: 2-1

2) Shareholders are a part of inside stakeholders.
Answer: TRUE
Page Ref: 28
Difficulty: Easy
LO: 2-1

3) Shareholders' claim on organizational resources is often considered inferior to the claims of other inside stakeholders.
Answer: FALSE
Page Ref: 29
Difficulty: Moderate
LO: 2-1

4) Shareholders are the owners of the organization.
Answer: TRUE
Page Ref: 29
Difficulty: Easy
LO: 2-1

5) The workforce and managers are considered outside stakeholders.
Answer: FALSE
Page Ref: 29
Difficulty: Easy
LO: 2-1

6) Customers are usually an organization's smallest outside stakeholder group.
Answer: FALSE
Page Ref: 30
Difficulty: Easy
LO: 2-1

7) Suppliers have a direct effect on the organization's efficiency and an indirect effect on its ability to attract customers.
Answer: TRUE
Page Ref: 32
Difficulty: Easy
LO: 2-1

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8) All stakeholder groups are equally important for an organization.
Answer: FALSE
Page Ref: 35
Difficulty: Moderate
LO: 2-2

9) To be effective, an organization must at least minimally satisfy the interests of all the groups that have a stake in the organization.
Answer: TRUE
Page Ref: 35
Difficulty: Easy
LO: 2-2

10) The stakeholder group with ultimate authority over the use of a corporation's resources is customers.
Answer: FALSE
Page Ref: 37
Difficulty: Easy
LO: 2-3

11) The board has the legal authority to hire, fire, and discipline corporate management.
Answer: TRUE
Page Ref: 37
Difficulty: Easy
LO: 2-3

12) Outside directors of a corporation are full-time employees of the corporation.
Answer: FALSE
Page Ref: 38
Difficulty: Easy
LO: 2-3

13) An inside director of a company can be a professional director who holds positions on the boards of many companies.
Answer: FALSE
Page Ref: 38
Difficulty: Moderate
LO: 2-3

14) Inside directors hold offices in a company's formal hierarchy.
Answer: TRUE
Page Ref: 38
Difficulty: Easy
LO: 2-3

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15) The system of hierarchical reporting relationships in an organization is known as a chain of command.
Answer: TRUE
Page Ref: 39
Difficulty: Easy
LO: 2-3

16) The CEO determines top management's rewards and incentives.
Answer: TRUE
Page Ref: 39
Difficulty: Easy
LO: 2-2

17) A manager who has direct responsibility for the production of goods and services is said to be holding a staff role.
Answer: FALSE
Page Ref: 40
Difficulty: Easy
LO: 2-3

18) A manager who is in charge of sales holds a staff role.
Answer: TRUE
Page Ref: 40
Difficulty: Easy
LO: 2-3

19) The chief operating officer, functional managers, and divisional managers form a company's top management team.
Answer: FALSE
Page Ref: 40
Difficulty: Easy
LO: 2-3

20) A problem in determining managerial accountability that arises when delegating authority to managers is known as an agency problem.
Answer: TRUE
Page Ref: 41
Difficulty: Easy
LO: 2-4

21) Divisional managers are not corporate managers.
Answer: TRUE
Page Ref: 41
Difficulty: Easy
LO: 2-4

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22) "Self-dealing" is the term used to describe the conduct of managers who take advantage of their position to act in their own interests rather than in the interests of other stakeholders.
Answer: TRUE
Page Ref: 42
Difficulty: Easy
LO: 2-4

23) Stock-based compensation schemes help solve the agency problem.
Answer: TRUE
Page Ref: 42
Difficulty: Easy
LO: 2-4

24) An ethical dilemma is the quandary people experience when they must decide whether or not they should act in a way that benefits someone else, even if it harms others and isn't in their own interest.
Answer: TRUE
Page Ref: 43
Difficulty: Easy
LO: 2-5

25) Ethics and law change as time passes.
Answer: TRUE
Page Ref: 44
Difficulty: Easy
LO: 2-5

26) As per the moral rights model of ethics, an ethical decision is one that produces the greatest good for the greatest number of people.
Answer: FALSE
Page Ref: 46
Difficulty: Easy
LO: 2-5

27) As per the justice model of ethics, an ethical decision is a decision that best maintains and protects the fundamental rights and privileges of the people affected by it.
Answer: FALSE
Page Ref: 46
Difficulty: Easy
LO: 2-5

28) As per the moral rights model of ethics, an ethical decision is a decision that distributes benefits and harms among stakeholders in a fair, equitable, or impartial way.
Answer: FALSE
Page Ref: 46
Difficulty: Easy
LO: 2-5

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29) Behaving ethically can reduce transaction costs through the reputation effect.
Answer: TRUE
Page Ref: 50
Difficulty: Easy
LO: 2-5

30) Organizations that are doing badly in an economic sense and are struggling to survive are the ones most likely to commit unethical and illegal acts.
Answer: TRUE
Page Ref: 51
Difficulty: Easy
LO: 2-5

31) In the long run, an organization that follows unethical practices tends to spend more on research and development and less on advertising and managerial salaries.
Answer: FALSE
Page Ref: 52
Difficulty: Moderate
LO: 2-5

32) ________ are people who have an interest or claim in an organization, in what it does, and in how well it performs.
A) Stakeholders
B) Early adopters
C) Boundary spanners
D) Late adopters
Answer: A
Page Ref: 28
Difficulty: Easy
LO: 2-1

33) The rewards that stakeholders receive for participating in an organization are called ________.
A) inducements
B) contributions
C) annuity
D) dividends
Answer: A
Page Ref: 28
Difficulty: Easy
LO: 2-1

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34) ________ are people who are closest to an organization and have the strongest or most direct claim on organizational resources.
A) Early adopters
B) Free riders
C) Whistle-blowers
D) Internal stakeholders
Answer: D
Page Ref: 28
Difficulty: Easy
LO: 2-1

35) Stakeholders will generally participate in an organization if ________.
A) the goods and services produced by the organization are of high quality
B) they receive inducements that exceed the value of the contributions they are required to make
C) the organization has a well-defined structure and culture
D) the organization is large and takes advantage of economies of scale and economies of scope
Answer: B
Page Ref: 28
Difficulty: Moderate
LO: 2-1

36) ________ are the owners of an organization, and, as such, their claim on organizational resources is often considered superior to the claims of other inside stakeholders.
A) Employees
B) Customers
C) Shareholders
D) Trade unions
Answer: C
Page Ref: 29
Difficulty: Easy
LO: 2-1

37) Which of the following groups of stakeholders receives inducements in the form of dividends and stock appreciation?
A) trade unions
B) suppliers
C) shareholders
D) workforce
Answer: C
Page Ref: 29
Difficulty: Easy
LO: 2-1

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38) Which of the following is an inside stakeholder group?
A) government
B) customers
C) suppliers
D) shareholders
Answer: D
Page Ref: 29
Difficulty: Easy
LO: 2-1

39) Which of the following is an inside stakeholder group that contributes money and capital?
A) government
B) suppliers
C) shareholders
D) managers
Answer: C
Page Ref: 29
Difficulty: Easy
LO: 2-1

40) Which of the following groups of stakeholders receives inducements in the form of bonuses, status, and power?
A) shareholders
B) managers
C) suppliers
D) unions
Answer: B
Page Ref: 29
Difficulty: Easy
LO: 2-1

41) Which of the following group of outside stakeholders contributes high-quality inputs?
A) unions
B) government
C) customers
D) suppliers
Answer: D
Page Ref: 29
Difficulty: Easy
LO: 2-1

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42) Which of the following is an outside stakeholder group?
A) shareholders
B) suppliers
C) managers
D) workforce
Answer: B
Page Ref: 29
Difficulty: Easy
LO: 2-1

43) In effect, ________ are the agents or employees of shareholders.
A) suppliers
B) customers
C) managers
D) unions
Answer: C
Page Ref: 30
Difficulty: Easy
LO: 2-1

44) ________ are usually an organization's largest outside stakeholder group.
A) Suppliers
B) Customers
C) Shareholders
D) Workforce
Answer: B
Page Ref: 30
Difficulty: Easy
LO: 2-1

45) To be effective, an organization must ________.
A) satisfy interests of all the stakeholders equally
B) consider employees as the most important stakeholder group and give priority to their interests over the interests of all the other stakeholders
C) at least minimally satisfy the interests of all the stakeholders
D) consider customers as the most important stakeholder group and give priority to their interests over the interests of all the other stakeholders
Answer: C
Page Ref: 35
Difficulty: Hard
LO: 2-2

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46) According to the capitalistic view, the primary goal of an organization is to ________.
A) maximize shareholder wealth
B) form long-term relationships with suppliers
C) satisfy employees
D) satisfy customers
Answer: A
Page Ref: 35
Difficulty: Moderate
LO: 2-2

47) The stakeholder group with ultimate authority over the use of a corporation's resources is ________.
A) managers
B) customers
C) government
D) shareholders
Answer: D
Page Ref: 37
Difficulty: Easy
LO: 2-3

48) In an organization, the position of the ________ is one of trusteeship.
A) managers
B) members of the board of directors
C) customers
D) government
Answer: B
Page Ref: 37
Difficulty: Moderate
LO: 2-3

49) In the case of a large organization, which of the following options best represents the accurate chain of command at the corporate management stage?
A) CEO, president, senior vice presidents, executive vice presidents
B) board, CEO, executive vice presidents, presidents
C) CEO, president, executive vice presidents, vice presidents
D) president, divisional managers, executive vice presidents, vice presidents
Answer: C
Page Ref: 38
Difficulty: Easy
LO: 2-3

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50) Which of the following persons can be an inside director in an organization?
A) a government official
B) a professional director who holds positions on the board of many companies
C) a full-time employee of the organization
D) an executive of another company that operates in the same industry
Answer: C
Page Ref: 38
Difficulty: Moderate
LO: 2-3

51) Which of the following statements is true about an outside director?
A) An outside director of an organization should have worked with the organization for at least 10 years at some point during his career.
B) Outside directors tend to dominate boards because as compared to inside directors, these people have better access to most of the information about the company.
C) An outside director should be a current employee of the organization.
D) An outside director of an organization can be an executive of some other company.
Answer: D
Page Ref: 38
Difficulty: Moderate
LO: 2-3

52) Which of the following would be considered to be the lowest level of management in a chain of command?
A) executive vice presidents
B) functional managers
C) divisional managers
D) vice presidents
Answer: B
Page Ref: 38
Difficulty: Easy
LO: 2-3

53) Which of the following terms best describes the system of hierarchical reporting relationships in an organization?
A) line of control
B) span of authority
C) matrix of hierarchy
D) chain of command
Answer: D
Page Ref: 39
Difficulty: Easy
LO: 2-3

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54) Which of the following employees would be considered to have a line role?
A) sales manager
B) executive vice president of finance
C) R&D director
D) vice president of production
Answer: D
Page Ref: 40
Difficulty: Easy
LO: 2-3

55) Which of the following is a primary responsibility of a chief operating officer?
A) selecting the members of the board of directors
B) managing the organization's internal functions
C) selecting key executives to occupy the topmost levels of the managerial hierarchy
D) determining top management's rewards and incentives
Answer: B
Page Ref: 40
Difficulty: Moderate
LO: 2-3

56) Managers who have direct responsibility for the production of goods and services are considered to be holding a(n) ________ role.
A) staff
B) integrative
C) line
D) distributive
Answer: C
Page Ref: 40
Difficulty: Easy
LO: 2-3

57) Managers who are in charge of a specific organizational function such as sales or R&D hold a(n) ________ role.
A) distributive
B) line
C) staff
D) integrative
Answer: C
Page Ref: 40
Difficulty: Easy
LO: 2-3

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58) Which of the following organizational positions is a part of an organization's top management team?
A) functional manager
B) executive vice president
C) divisional manager
D) plant supervisor
Answer: B
Page Ref: 40
Difficulty: Easy
LO: 2-3

59) Which of the following organizational positions is considered to be a part of corporate management?
A) project manager
B) chief operating officer
C) divisional manager
D) plant supervisor
Answer: B
Page Ref: 40
Difficulty: Easy
LO: 2-3

60) Vice presidents are part of ________ management.
A) corporate
B) divisional
C) functional
D) line
Answer: A
Page Ref: 40
Difficulty: Easy
LO: 2-3

61) Which of the following managers has a staff role?
A) R&D manager
B) production manager
C) divisional manager
D) assembly line supervisor
Answer: A
Page Ref: 40
Difficulty: Easy
LO: 2-3

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62) A(n) ________ problem is a problem in determining managerial accountability that arises when delegating authority to managers.
A) self-dealing
B) organizational contract
C) line of command
D) agency
Answer: D
Page Ref: 41
Difficulty: Easy
LO: 2-4

63) Which of the following is one of the two conditions that lead to a moral hazard problem?
A) the principal possesses more information than the agent
B) the agent has an incentive to pursue goals and objectives that are different from the principal's
C) the principal acts in his own best interest, as opposed to the interests of the other stakeholders
D) the agent is given the authority to allocate scarce organizational resources
Answer: B
Page Ref: 41
Difficulty: Moderate
LO: 2-4

64) Which of the following statements is true regarding a divisional manager?
A) A divisional manager is a part of the top-management team.
B) Divisional managers act as outside directors for the company.
C) A divisional manager is not a corporate manager.
D) A marketing manager is an example of a divisional manager.
Answer: C
Page Ref: 41
Difficulty: Moderate
LO: 2-3

65) "Self-dealing" is defined as ________.
A) a manager acting in his own best interest, as opposed to the interests of the other stakeholders
B) a cash bonus distributed privately amongst the top-management team
C) a manager promoting family members at the expense of others
D) a form of control that aligns the interests of principal and agent so both parties have the incentive to work together to maximize organizational effectiveness
Answer: A
Page Ref: 42
Difficulty: Moderate
LO: 2-4

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66) Which of the following is generally used to solve agency problems?
A) self-dealing
B) stock-based compensation schemes
C) a highly centralized organization structure
D) a matrix organization structure
Answer: B
Page Ref: 42
Difficulty: Easy
LO: 2-4

67) As per the ________ Act, CEOs, COOs, and the chief financial officer are required to sign off on their company's balance statements so they can be held personally and legally liable for accidental or deliberate mistakes found later.
A) Sarbanes-Oxley
B) Taft-Hartley
C) Walsh-Healey
D) Davis-bacon
Answer: A
Page Ref: 43
Difficulty: Easy
LO: 2-4

68) A manager decides to locate a manufacturing plant in a location that maximizes the overall benefits to the stakeholders. Which model of ethics is being used by the manager?
A) justice
B) moral rights
C) utilitarian
D) mutual association
Answer: C
Page Ref: 46
Difficulty: Moderate
LO: 2-5

69) A manager chooses to tell affected employees about an impending layoff, despite the damage this causes to the stock price of the organization. She did this because it was "the right thing to do." Which model of ethics is she using?
A) justice
B) moral rights
C) utilitarian
D) mutual association
Answer: B
Page Ref: 46
Difficulty: Moderate
LO: 2-5

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70) A manager decides to distribute the pool of bonus money equally among all of the subordinates, even though some performed better than others. Which model of ethics is being used by him in making this decision?
A) justice
B) moral rights
C) utilitarian
D) mutual association
Answer: A
Page Ref: 46
Difficulty: Moderate
LO: 2-5

71) As per the ________ model of ethics, an ethical decision is one that produces the greatest good for the greatest number of people.
A) mutual association
B) utilitarian
C) justice
D) moral rights
Answer: B
Page Ref: 46
Difficulty: Easy
LO: 2-5

72) Which of the following is a model of ethics?
A) mutual association
B) utilitarian
C) value integration
D) incremental benefit
Answer: B
Page Ref: 46
Difficulty: Easy
LO: 2-5

73) A doctor was banned from practicing medicine because he consistently prescribed unnecessary procedures. This doctor violated ________.
A) professional ethics
B) the justice model of ethics
C) individual ethics
D) the utilitarian model of ethics
Answer: A
Page Ref: 48
Difficulty: Easy
LO: 2-5

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74) The "tragedy of the commons" illustrates that ________.
A) the utilitarian model of ethics is the most effective model of ethics
B) all unethical actions are always illegal
C) the rational pursuit of individual self interest results in a collective disaster
D) all the available resources should be equally distributed among all the stakeholders
Answer: C
Page Ref: 50
Difficulty: Moderate
LO: 2-5

75) The reputation effect ________.
A) solves the agency problem
B) leads to equal distribution of resources among all the stakeholders
C) increases the problems of self-dealing
D) reduces transaction costs
Answer: D
Page Ref: 50
Difficulty: Moderate
LO: 2-5

76) Behavior that follows accepted ethical rules confers a(n) ________ effect on an individual or an organization.
A) observer-expectancy
B) framing
C) focusing
D) reputation
Answer: D
Page Ref: 50
Difficulty: Easy
LO: 2-5

77) Which of the following organizations is most likely to commit unethical and illegal acts such as collusion, price fixing, or bribery?
A) an organization that is introducing a new product in the market
B) an organization that is struggling to survive
C) an organization that is entering into a new market
D) an organization that has a flat and decentralized organizational structure
Answer: B
Page Ref: 51
Difficulty: Easy
LO: 2-5

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78) A son of a mobster believes that it is ethical to steal if it is in the best interest of his family. This view comes from ________.
A) justice model of ethics
B) professional ethics
C) personal ethics
D) moral rights model of ethics
Answer: C
Page Ref: 51
Difficulty: Easy
LO: 2-5

79) In the long run, an organization that follows unethical practices is most likely to ________.
A) be more innovative
B) spend less on advertising or managerial salaries
C) be bureaucratized
D) spend more on research and development
Answer: C
Page Ref: 52
Difficulty: Moderate
LO: 2-5

80) ________ occurs when an employee informs an outside person or agency, such as a government agency, a newspaper, or television reporter, about an organization's (its managers') illegal or immoral behavior.
A) Boundary spanning
B) Moonlighting
C) Whistle-blowing
D) Dumping
Answer: C
Page Ref: 53
Difficulty: Easy
LO: 2-5

81) List the outside stakeholders of an organization.
Answer: The outside stakeholders of an organization are:
Customers
Suppliers
The government
Trade unions
Local communities
The general public
Page Ref: 29
Difficulty: Easy
LO: 2-1

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82) Who are the inside stakeholders of an organization?
Answer: Inside stakeholders are people who are closest to an organization and have the strongest or most direct claim on organizational resources. The inside stakeholders of an organization are:
Shareholders: Shareholders are the owners of the organization, and, as such, their claim on organizational resources is often considered superior to the claims of other inside stakeholders. The shareholders' contribution to the organization is to invest money in it by buying the organization's shares or stock. The shareholders' inducement to invest is the prospective money they can earn on their investment in the form of dividends and increases in the price of stock.

Managers: Managers are the employees responsible for coordinating organizational resources and ensuring that an organization's goals are met successfully. Top managers are responsible for investing shareholder money in resources to maximize the value of an organization's future output of goods and services.

Workforce: An organization's workforce consists of all nonmanagerial employees. Members of the workforce have task responsibilities and duties (usually outlined in a job description) that they are accountable for performing at the required level.
Page Ref: 29, 30
Difficulty: Easy
LO: 2-1

83) Discuss the significance of suppliers as an outside stakeholder group.
Answer: Suppliers contribute to the organization by providing reliable raw materials and component parts that allow the organization to reduce uncertainty in its technical or production operations and thus reduce production costs. Suppliers have a direct effect on the organization's efficiency and an indirect effect on its ability to attract customers. An organization that has high-quality inputs can make high-quality products and attract customers. In turn, as demand for its products increases, the organization demands greater quantities of high-quality inputs from its suppliers.
Page Ref: 32
Difficulty: Easy
LO: 2-1

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84) Describe the various reasons due to which managers may follow goals that promote their own interests and not the interests of shareholders.
Answer: When shareholders delegate to managers the right to coordinate and use organizational skills and resources, a divorce of ownership and control occurs. Although in theory managers are the employees of shareholders, in practice because managers have control over organizational resources, they have real control over the company even though shareholders own it. The result is that managers may follow goals that promote their own interests and not the interests of shareholders.

An attempt to maximize stockholder wealth may involve taking risks into uncharted territory and making capital investments in R&D that may bear fruit only in the long term as new inventions and discoveries generate new products and a stream of new revenues. Managers, however, may prefer to maximize short-term profits because that is the goal on which they are evaluated by their peers and by stock market analysts who do not take the long-term view.
Also, because managers' salaries are closely correlated with organizational size, managers may prefer to pursue low-risk strategies even though these may not maximize return on invested capital.
Page Ref: 35
Difficulty: Moderate
LO: 2-2

85) Explain why shareholders are considered the stakeholder group with ultimate authority over the use of a corporation's resources.
Answer: The stakeholder group with ultimate authority over the use of a corporation's resources is shareholders. Legally, they own the company and exercise control over it through their representatives, the board of directors. Through the board, shareholders delegate to managers the legal authority and responsibility to use the organization's resources to create value and to meet goals. Accepting this authority and responsibility from shareholders and the board of directors makes corporate managers accountable for the way they use resources and for how much value the organization creates.
Page Ref: 37
Difficulty: Moderate
LO: 5-3

86) Differentiate between inside directors and outside directors.
Answer: There are two kinds of directors: inside directors and outside directors. Inside directors are directors who also hold offices in a company's formal hierarchy; they are full-time employees of the corporation. Outside directors are not employees of the company; many are professional directors who hold positions on the board of many companies, or they are executives of other companies who sit on other companies' boards. The goal of having outside directors is to bring objectivity to a company's decision-making and to balance the power of inside directors, who obviously side with an organization's management. In practice, however, inside directors tend to dominate boards because these people have access to the most information about the company, and they can use that information to influence decision-making in management's favor.
Page Ref: 38
Difficulty: Easy
LO: 2-3

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87) Describe the various ways in which a CEO can influence organizational effectiveness and decision-making.
Answer: The five principal ways in which a CEO can influence organizational effectiveness and decision-making are:
1. The CEO is responsible for setting the organization's goals and designing its structure.
2. The CEO selects key executives to occupy the topmost levels of the managerial hierarchy.
3. The CEO determines top management's rewards and incentives.
4. The CEO controls the allocation of scarce resources such as money and decision-making power among the organization's functional areas or business divisions.
5. The CEO's actions and reputation have a major impact on inside and outside stakeholders' views of the organization and affect the organization's ability to attract resources from its environment.
Page Ref: 39,40
Difficulty: Easy
LO: 5-3

88) What is an agency problem?
Answer: An agency problem is a problem in determining managerial accountability that arises when delegating authority to managers. The average shareholder has no in-depth knowledge of a particular industry or how to run a company. They appoint experts in the industry—managers—to perform this work for them. As a result, shareholders are at an information disadvantage compared with top managers. It is very difficult for them to judge the effectiveness of a top-management team's actions when it can often only be judged over several years. Moreover the goals and interests of managers and shareholders may diverge. Managers may prefer to pursue courses of action that lead to short-term profits, or short-term control over the market, whereas shareholders might prefer actions that lead to long-term profitability such as increased efficiency and long-term innovation.
Page Ref: 41
Difficulty: Moderate
LO: 2-4

89) What are the three models of ethics?
Answer: The three models of ethics are as follows:
1. Utilitarian model: According to this model an ethical decision is one that produces the greatest good for the greatest number of people.
2. Moral rights model: According to this model an ethical decision is a decision that best maintains and protects the fundamental rights and privileges of the people affected by it. For example, ethical decisions protect people's rights to freedom, life and safety, privacy, free speech, and freedom of conscience.
3. Justice model: According to this model an ethical decision is a decision that distributes benefits and harms among stakeholders in a fair, equitable, or impartial way.
Page Ref: 46
Difficulty: Easy
LO: 5-5

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90) What are the three principal sources of ethical values that influence organizational ethics?
Answer: The three principal sources of ethical values that influence organizational ethics are:
1. Societal ethics: One important determinant of organizational ethics is societal ethics. Societal ethics are codified in a society's legal system, in its customs and practices, and in the unwritten norms and values that people use to interact with each other.
2. Professional ethics: Professional ethics are the moral rules and values that a group of people uses to control the way they perform a task or use resources.
3. Individual ethics: Individual ethics are the personal and moral standards used by individuals to structure their interactions with other people. Many behaviors that one person may find unethical another person may find ethical.
Page Ref: 47,48
Difficulty: Easy
LO: 2-5

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